

Message Text

CONFIDENTIAL

PAGE 01 OTTAWA 02656 01 OF 02 152246Z

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ACTION EUR-12

INFO OCT-01 ISO-00 FEA-01 ERDA-05 AID-05 CEA-01 CIAE-00

CIEP-01 COME-00 DODE-00 EB-07 FPC-01 H-02 INR-07

INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-03 SAM-01 OES-03

SP-02 SS-15 STR-04 TRSE-00 FRB-03 PA-01 PRS-01 USIE-00

SSO-00 INRE-00 NSCE-00 /090 W
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O 152137Z JUL 75

FM AMEMBASSY OTTAWA

TO SECSTATE WASHDC IMMEDIATE 6982

C O N F I D E N T I A L SECTION 1 OF 2 OTTAWA 2656

E.O. 11652: GDS

TAGS: ENRG, CA

SUBJ: ENERGY: NEB REPORT ON NATURAL GAS SUPPLY AND
REQUIREMENTS

1. EXTAF (FULFORD, DIRECTOR, TRANSPORT, COMMUNICATIONS AND ENERGY DIVISION) CALLED IN ECONOMIC COUNSELOR THIS AFTERNOON AND HANDED HIM COPY OF NEB REPORT ON NATURAL GAS SUPPLY AND REQUIREMENTS AND EMR DRAFT NEWS RELEASE ON STATEMENT WHICH EMR MINISTER MACDONALD WILL MAKE ON REPORT. FULFORD SAID PRESENT PLAN IS FOR MACDONALD TO TABLE REPORT AND MAKE STATEMENT IN HOUSE OF COMMONS AT 3:00 P.M., WEDNESDAY, JULY 16, AND TO HAVE PRESS CONFERENCE SHORTLY THEREAFTER, PROBABLY ABOUT 4:30. FULFORD SAID THAT NEWS RELEASE IS CONSIDERED "IN DRAFT" BECAUSE THERE IS ALWAYS POSSIBILITY OF CHANGE BEFORE IT IS MADE PUBLIC ALTHOUGH HE DID NOT RPT NOT EXPECT ANY CHANGE.

2. FULFORD SAID THAT WHEN USG STUDIES NEB REPORT AND COMPARES REPORT WITH MACDONALD STATEMENT IT WILL NOTE THAT MACDONALD HAS TAKEN POSITION THAT SOME OF
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 OTTAWA 02656 01 OF 02 152246Z

NEB'S LANGUAGE IS OPEN TO INTERPRETATION AND MACDONALD

HAS OPTED FOR THE MOST FLEXIBLE INTERPRETATION. IN OTHER WORDS, HE SAID, NEB REPORT ITSELF MAY READ MORE HARSHLY THAN MACDONALD'S PRESENTATION.

3. FULFORD COMMENTED THAT GOC HAD MUCH HOMEWORK TO DO, INCLUDING CONSULTATIONS WITH PROVINCES AND US, IN ORDER TO DEFINE MANY OF TERMS USED IN MACDONALD'S STATEMENT, E.G., "REASONABLE", "TO THE GREATEST EXTENT POSSIBLE," ETC.

4. IN RESPONSE TO ECON COUNSELOR'S QUESTION ABOUT PLANS FOR CONSULTATIONS WITH USG, FULFORD SAID THAT ON BASIS OF DISCUSSION WITH DEPUTY ASSISTANT SECRETARY OF STATE KATZ DURING KATZ'S MOST RECENT VISIT TO OTTAWA, GOC UNDERSTOOD THAT FROM THE USG VIEWPOINT, EARLY AUTUMN MIGHT BE THE BEST TIME.FULFORD SAID THIS WOULD ALSO GIVE GOC TIME TO DO SOME OF ITS HOMEWORK. HE EMPHASIZED, HOWEVER, THAT GOC WAS NOT REFUSING TO CONSULT BEFORE AUTUMN AND WOULD BE PREPARED TO CONSIDER EARLIER MEETING IF USG DESIRES.

5. FULFORD EMPHASIZED THAT NEB REPORT AND MACDONALD STATEMENT SHOULD BE CLOSELY HELD UNTIL THEY ARE RELEASED PUBLICLY IN OTTAWA.

6. FOLLOWING IS TEXT OF EMR NEWS RELEASE. BEGIN VERBATIM TEXT:

THE HONOURABLE DONALD S. MACDONALD TODAY COMMENTED ON THE NATIONAL ENERGY BOARD'S REPORT ON NATURAL GAS SUPPLIES. THE REPORT WAS PREPARED FOLLOWING EXTENSIVE PUBLIC HEARINGS HELD ACROSS CANADA IN LATE 1974 AND EARLY 1975. SOME SIXTY-TWO SUBMISSIONS WERE RECEIVED BY THE BOARD DURING THIS PERIOD.

MR. MACDONALD NOTED THAT THE BOARD'S REPORT CONFIRMS EARLIER CONCERNS THAT NATURAL GAS SUPPLIES WILL NOT BE ADEQUATE IN THE NEAR TERM TO MEET BOTH PROJECTED INCREASES IN DOMESTIC DEMAND AND EXISTING

CONFIDENTIAL

PAGE 03 OTTAWA 02656 01 OF 02 152246Z

EXPORT COMMITMENTS. IT IS CLEAR FROM THE INFORMATION PRESENTED THAT THERE WILL HAVE TO BE SOME CURTAILMENT OF OUR EXPORT CONTRACTS AND THAT GROWTH OF DEMAND IN CANADA WILL HAVE TO BE RESTRAINED UNTIL FRONTIER SUPPLIES OF GAS ARE AVAILABLE.

THE MINISTER NOTED THAT THE LAST MAJOR COMMITMENT OF NATURAL GAS TO THE EXPORT MARKET WAS IN 1970. AT

THAT TIME THE BOARD CONCLUDED THAT ADDITIONAL VOLUMES OF GAS COULD BE COMMITTED FOR EXPORT AFTER MAKING DUE ALLOWANCES FOR "REASONABLY FORESEEABLE REQUIREMENTS FOR USE IN CANADA." THE BOARD'S REPORT ACKNOWLEDGES THAT THE SERIES OF EVENTS WHICH HAS TRANSPIRED SINCE 1970 WAS NOT ENVISAGED WHEN THE SURPLUS WAS CALCULATED. NEW DISCOVERIES HAVE NOT TAKEN PLACE AT THE RATE EXPECTED AND DELIVERABILITY CHARACTERISTICS OF EXISTING AND NEW RESERVES HAVE BEEN LESS FAVOURABLE THAN ANTICIPATED. THERE HAVE BEEN OTHER SIGNIFICANT CHANGES IN THE SITUATION INCLUDING THE IMPAIRMENT OF PRODUCTION IN GAS FIELDS IN NORTHERN BRITISH COLUMBIA, THE RAPID RISE IN THE OPEC OIL PRICE CAUSING NATURAL GAS TO BE UNDERPRICED IN RELATION TO OTHER FUELS, AND THE OPENING UP OF NEW MARKETS IN QUEBEC AND FOR PETROCHEMICAL AND AMMONIA PRODUCTION. IN THE BOARD'S OPINION ALL THESE FACTORS, COUPLED WITH THE INDUSTRY'S CONCERN ABOUT FISCAL REGIMES AND PRICING POLICIES, HAVE GIVEN RISE TO THE PRESENT SUPPLY SITUATION.

THE MINISTER OBSERVED THAT WHILE THE BOARD'S REPORT QUITE PROPERLY CALLS ATTENTIONS TO THE FACT THAT GAS IS BEING EXPORTED WHICH IS NOW NOT SURPLUS TO CANADIAN NEEDS, AND SUGGESTS MEASURES TO REDUCE EXPORTS, THE BOARD ALSO RECOGNIZES THAT BROADER CONSIDERATIONS MUST BE RECOGNIZED WHEN DEVELOPING AN EQUITABLE SOLUTION TO THE SUPPLY PROBLEM. IT IS CLEAR THAT CANADIANS SHOULD MAKE VERY EFFORT TO RESTRAIN NEW DEMANDS FOR NATURAL GAS AND TO AVOID WASTAGE IN EXISTING DEMANDS. THE POWERS REQUESTED BY THE NATIONAL ENERGY BOARD FOR THE ALLOCATION OF NATURAL GAS SUPPLIES MAY WELL BE REQUIRED TO REINFORCE THE EFFECT OF CONSERVATION AND PRICING

CONFIDENTIAL

CONFIDENTIAL

PAGE 04 OTTAWA 02656 01 OF 02 152246Z

POLICIES. PRIOR TO A FINAL DECISION ON SUCH ACTION HOWEVER, DISCUSSIONS WILL BE HELD WITH THE AFFECTED PROVINCES. MR. MACDONALD INDICATED THAT THE GOVERNMENT INTENDS TO ENSURE THAT REASONABLE CANADIAN REQUIREMENTS ARE MET CONSISTENT WITH THE WISE USE OF THIS SCARCE NATURAL RESOURCE, BUT THAT OTHER DEMANDS ARE TO BE DISCOURAGED SO AS TO ENABLE OUR OBLIGATIONS TO EXISTING U.S. CUSTOMERS TO BE MET TO THE GREATEST EXTENT POSSIBLE.

CONFIDENTIAL

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PAGE 01 OTTAWA 02656 02 OF 02 152307Z

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FM AMEMBASSY OTTAWA

TO SECSTATE WASHDC IMMEDIATE 6983

C O N F I D E N T I A L SECTION 2 OF 2 OTTAWA 2656

THE GOVERNMENT HAS ALREADY INITIATED ACTION TO ENSURE THAT NATURAL GAS IS USED AS A VALUABLE, SCARCE AND NON-RENEWABLE RESOURCE. CONSERVATION PROGRAMS HAVE BEEN LAUNCHED AND PROVINCES ENCOURAGED TO FOSTER CONSERVATION IN THE AREAS UNDER THEIR JURISDICTION. THE GOVERNMENT HAS ALSO ANNOUNCED ITS POLICY OF A PHASED COMMODITY VALUE CONCEPT IN PRICING NATURAL GAS IN BOTH EXPORT AND DOMESTIC MARKETS. HIGHER PRICES FOR NATURAL GAS SOLD IN EXPORT MARKETS WERE ANNOUNCED FOLLOWING THE FIRST MINISTERS' MEETING IN APRIL AND THE FEDERAL GOVERNMENT IS COMMITTED TO A PHASING IN OF DOMESTIC PRICES TO COMPARABILITY WITH CRUDE OIL PRICES AT TORONTO. THE FIRST STEP IN THIS PHASING PROGRAM WILL TAKE EFFECT 1 NOVEMBER OF THIS YEAR AND EQUIVALENT PRICING IS TO BE ACHIEVED IN THREE TO FIVE YEARS. IN THE FRONTIER AREAS, THE GOVERNMENT HAS ANNOUNCED THE OUTLINE OF ITS POLICY ON NEW LAND REGULATIONS. THESE REGULATIONS, AFTER FURTHER CONSULTATION, WILL BE PROPOSED TO PARLIAMENT AND SHOULD PROVIDE A STIMULUS FOR ENSURING THE DEVELOPMENT OF THE LONGER TERM SUPPLIES REQUIRED FROM THE FRONTIER AREAS.

CONFIDENTIAL

CONFIDENTIAL

PAGE 02 OTTAWA 02656 02 OF 02 152307Z

WITH REGARD TO THE BOARD'S OPINION RELATING TO "INADEQUATE AND UNCERTAIN NETBACKS" TO THE INDUSTRY, MR. MACDONALD NOTED THAT THERE WAS NO DOUBT THAT THIS WAS AN ACCURATE REFLECTION OF INDUSTRY CONCERNS. WHILE HE DID NOT AGREE WITH THE EXTENT TO WHICH THIS HAS, OR SHOULD HAVE BEEN, A REAL PROBLEM TO THE INDUSTRY, HE OBSERVED THAT THE RECENT FISCAL MEASURES TAKEN BY THE FEDERAL AND ALBERTA GOVERNMENTS SHOULD FURTHER ALLEVIATE CONCERNS BY THE INDUSTRY IN THAT PROVINCE AT LEAST. HE NOTED THAT IN 1972, PRIOR TO THE DRAMATIC CHANGES IN ENERGY PRICES, INDUSTRY IN ALBERTA WAS RECEIVING 6 TO 7 CENTS PER THOUSAND CUBIC FEET FOR GAS AFTER TAXES, ROYALTIES AND PRODUCTION COSTS. NEXT YEAR, DEPENDING UPON THE PARTICULAR CIRCUMSTANCES, THE RETURN TO A PRODUCER WILL BE IN THE RANGE OF 20 TO 50 CENTS.

COMMENTING ON THE RECOMMENDATION FOR EXPORT CONTROLS ON THE FIRST STAGE DERIVATIVE CHEMICALS PRODUCED FROM NATURAL GAS, THE MINISTER NOTED THE NATIONAL ENERGY BOARD'S CONCERN OVER THE LARGE NUMBER OF AMMONIA PLANTS BEING PROPOSED FOR ALBERTA. TO THE EXTENT THAT THESE PROJECTS REMOVE GAS FROM THE AVAILABLE SOURCES OF SUPPLY THIS WOULD HAVE THE EFFECT OF REDUCING NATURAL GAS EXPORTS TO UNITED STATES CUSTOMERS AND REPLACING THAT GAS IN AN UP-GRADED FORM OF AMMONIA. MR. MACDONALD NOTED THAT THE HIGHER EXPORT PRICES FOR NATURAL GAS WILL MAKE CONVERSION OF GAS FOR EXPORT AS AMMONIA LESS ATTRACTIVE AND THE GOVERNMENT WILL BE HOLDING DISCUSSIONS WITH THE PROVINCE OF ALBERTA ON THE RATE OF DEVELOPMENT OF AMMONIA PLANTS PENDING THE AVAILABILITY OF FRONTIER GAS.

MR. MACDONALD OBSERVED THAT UNITED STATES GOVERNMENT OFFICIALS WERE ADVISED IN ADVANCE OF THE FINDINGS OF THE NATIONAL ENERGY BOARD AND THAT DISCUSSIONS WILL BE HELD IN AN EFFORT TO CONTROL EXPORTS IN A MANNER WHICH WILL BE AS RESPONSIVE AS POSSIBLE TO UNITED STATES CONCERNS. THE MINISTER
CONFIDENTIAL

CONFIDENTIAL

PAGE 03 OTTAWA 02656 02 OF 02 152307Z

ALSO NOTED THAT DISCUSSIONS ARE BEING HELD WITH THE PROVINCES MOST DIRECTLY AFFECTED, THAT THESE DISCUSSIONS WILL BE CONTINUED, AND THAT PROVINCIAL ASSISTANT IN RESTRAINING NATURAL GAS DEMAND IN CANADA IS BEING SOUGHT.

IT WAS NOTED THAT CANADIAN NATURAL GAS EXPORTS

REPRESENT ONLY 4.5 PERCENT OF UNITED STATES GAS DEMAND. THERE ARE SOME AREAS SERVED BY CANADIAN GAS, HOWEVER, WHICH DO NOT HAVE ACCESS TO OTHER SUPPLIES AND IT WOULD BE THE INTENT THAT TO THE EXTENT POSSIBLE PREFERENCE WOULD BE GIVEN TO THESE AREAS IN ANY ALLOCATION MECHANISM. SEVERE CURTAILMENT OF CONTRACTED GAS SUPPLIES IS ALREADY BEING EXPERIENCED WITHIN THE UNITED STATES BECAUSE OF INADQUATE DOMESTIC PRODUCTION.

MR. MACDONALD INDICATED THAT HE AGREED WITH THE BOARD'S FINDING THAT AN IMMEDIATE ELIMINATION OF GAS EXPORTS WOULD NOT PROVIDE SIGNIFICANT ASSISTANCE IN OFFSETTING OR DELAYING THE GAS SHORTAGE AND IN FACT COULD WORSEN IT BY DISCOURAGING GAS EXPLORATION AND DEVELOPMENT NECESSARY FOR FUTURE GAS SUPPLY. AT THE SAME TIME HE ACKNOWLEDGED THAT SOME PHASING DOWN OF EXPORTS UNDER EXISTING LICENCES WILL BE REQUIRED.

CONSIDERATION IS BEING GIVEN AS TO THE METHOD OF CONDUCTING SUCH PHASING DOWN. UNDER EITHER SECTION 17(2) OF THE NEB ACT OR SECTIONS 82(3) AND 85 MEASURES CAN BE TAKEN TO CONDITION THE EXISTING EXPORT LICENCES SO THAT EXPORTS MAY BE REDUCED. EVERY EFFORT, HOWEVER, WILL BE MADE TO AVOID THE NEED FOR ANY CURTAILMENT OF EXPORT DELIVERIES OVER THE COMING HEATING SEASON OTHER THAN THOSE WHICH CONTINUE TO OCCUR ON THE WEST COAST SYSTEM.

WHILE NOTING THAT HE DID NOT AGREE WITH THE EED FOR A SEPARATE AND FORMAL PLANNING COUNCIL OR COMMITTEE TO DEAL WITH THIS SPECIFIC ISSUE, AS RECOMMENDED BY THE BOARD, THE MINISTER CONCLUDED HIS COMMENTS BY STATING THAT DETAILED DISCUSSIONS WITH ALL INTERESTED PARTIES WILL BE REQUIRED AND COOPERATIVE

CONFIDENTIAL

CONFIDENTIAL

PAGE 04 OTTAWA 02656 02 OF 02 152307Z

ACTION IS ESSENTIAL IF WE ARE TO DEVELOP REASONABLE AND WORKABLE PROCEDURES FOR HANDLING SUCH SHORTAGES AS REMAIN AFTER EVERY EFFORT HAS BEEN MADE TO INCREASE NATURAL GAS SUPPLY. AGREEMENTS WILL BE REQUIRED WHICH ARE FLEXIBLE AS TO THE AMOUNT AND TIMING OF ANY CUTBACKS IN EXPORTS; WHICH FOCUS NOT ONLY ON EXPORTS BUT EQUALLY ON REDUCTIONS OF UNNECESSARY OR WASTEFUL CONSUMPTION IN CANADA; WHICH AVOID THE SEEMINGLY SIMPLE SOLUTION OF TRYING TO MEET THE PROBLEM ENTIRELY AT THE EXPENSE OF THE U.S. CUSTOMERS; AND WHICH MAINTAIN THE ESSENTIAL PRINCIPLE THAT AFTER REASONABLE CONSULTATION, CANADIAN AUTHORITIES MUST MAKE THE DECISION AS TO THE QUANTITIES OF CANADIAN GAS TO BE EXPORTED. END VERBATIM TEXT.

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